



March 6, 2010

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314

Re: Response to Proposed Regulation of 12 CFR Part 704

Dear Ms. Rupp:

My name is Eva Gaudio and I am the President and CEO of St. Vrain Valley Credit Union (SVVCU) in Longmont, Colorado. Our Credit Union has 9,400 Members with \$80 million in assets. Despite the extinguishment of our Member Capital Shares in SunCorp Corporate Credit Union (30% so far), we continue to support a credit union-owned option as long as we can determine that such option is cost competitive, viable for the credit union system, and that losses from legacy assets will not drain new capital deposits.

Support for Cooperative Network

If our corporate system disappears, SVVCU will struggle with higher operating expenses and lower service levels, because we would be forced to use either the FRB or a correspondent bank. Believe me, I have had credit union experience working with both institutions, and the service levels in both were poor. In addition, the banks charged us excessive fees. And why would SVVCU want to support banks with our business when they lobby against credit unions? They will not have our best interests in mind!

On the other hand, being a member/owner of a financial institution gives us a say in how it operates. This is the heart of the cooperative credit union model and philosophy. If credit unions move their business away from their corporates, the loss of scale will increase costs to the remaining credit unions. This is a horrible scenario playing out. SVVCU wants and needs our corporate system to be preserved; so let's improve this system that was started by credit unions to serve credit unions, not eliminate it.

Capital Standards

It is evident that corporates did not have enough capital to withstand the worst global economic and financial crisis since the Great Depression. We support more stringent capital standards and the addition of PCA requirements. We agree that there needs to be a focus on building retained earnings for systemic protection, but increased retained earnings will not be possible if the corporates are only allowed to hold short-term assets and liabilities. **We recommend that you extend the time frame for corporates to meet capital and retained earnings.**

ALM/Investments

Based upon feedback from corporates, industry and ALM experts, and my own analysis, your plan has serious flaws, including limiting the mismatch that occurs between assets and liabilities, prepayment speeds, and concentration levels. The proposed levels will not lead to a viable corporate system due to reasons that follow.



First, there is too much emphasis on NEV analysis which is a liquidation valuation and does not consider new business and operating expenses. The two-year weighted average life is too conservative and should be extended to four years. We rely on our line-of-credit to fill liquidity needs and for other borrowings. If our corporate has to keep the overall weighted average length of its portfolio within a two year limit, they will have to increase the interest rate on the loan to compensate for the impact the longer term will have on its two year test. My Credit Union will have to pay more for this convenient and necessary service. In addition, the credit unions that use their corporate for longer term loans in order to mitigate interest rate risk will be forced to find more costly alternatives.

Second, prepayment speeds of 50% are excessive and arbitrary. We recommend that prepayment speeds be determined based upon the current environment and matching behavior. If a specific rate must be in the regulation, we recommend that it be lowered to a more realistic 20%.

Third, concentration of assets or liabilities can create problems as we learned from the direct and indirect investments in mortgages. However, it appears that arbitrary limits are being established under the proposal. Security types like CDOs and NIMs should be prohibited as proposed. Concentration limits should be tied to capital accumulation standards – the more capital, the more flexibility.

At the GAC, I heard that the NCUA board hired a consultant to model the proposed rules for viability. A credible assessment will also test the assumptions in the model. I commend you for taking this important step. We suggest that you take it further by getting opinions from multiple firms and industry experts before you implement such significant changes.

#### Corporate Governance

We recommend that you eliminate the need for titles to be a requirement to serve as a corporate board member. Why would titles be more important than experience for board qualifications? Skill and experience standards should be the requirement. If you must mandate this, require recent executive level experience or reduce the Chief-level requirement to a percentage of the board.

And in regard to term limits, we prefer that each corporate's members make that determination. However, if you insist on term limits, we recommend extending term limits to three, 3-year terms. Six years is too short. Experience tells us that it takes a couple of years to get up to speed and to become an integral member of a board.

#### Extinguished Members Deposits

Chairman Matz was correct when she said in a speech on 11/13/2009: "2010 will be a year of uncertainty and challenge...capital written off by corporates will trickle down as losses to natural person credit unions." These losses are horrific during a time when loan losses are at all time high levels.

So, let me reinforce something I wrote in a past correspondence to the NCUA board: "There appears to be no need for NCUA to require permanent extinguishment of credit unions' deposits in our corporate credit unions when those assumptions are based on future projections. Neither GAAP nor current regulation actually state that capital MUST be extinguished to cover negative retained earnings." What is your plan to reverse this devastating overreaching directive that is putting credit unions out of business? There must be some higher agenda here. It's awfully suspicious that you won't be transparent with your plans while credit unions have this deadline

to respond to the proposed Regulation. This lack of transparency does nothing to build trust between credit unions and our regulators.

Proposed Regulation 704 continues to carry out the above offensive directive by specifically stating in the "available to cover losses..." definition that "corporate credit unions must not restore or replenish...capital accounts under any circumstances." The appropriate use of capital to cover losses is concerning in the current accounting environment. Investment portfolio valuations that are unrealized, yet required to be written down, become realized operating losses. If capital is deficient, owners of the corporate must pay for the losses with no opportunity to recoup the contribution if the investments increase in value or performs better than expected. Why can't the positive operating earnings of the corporate be used to offset OTTI charges over a period of time? Why can't owners be reimbursed for unrealized losses previously written off? This rule is unnecessary and unfriendly to natural person credit unions and may contribute to the unwillingness of many credit unions to support the corporate system.

The proposed Rules do contain some good provisions in its current form, including: Requiring that users of a corporate credit union be a member of the corporate; increasing capital requirements; adding Prompt Corrective Action conditions; and diversifying the investment portfolio.

In conclusion, we need and rely upon our corporate credit union. It offers expertise and support for settlement, payment, and investment services – and we own it and have a say in its operation. We believe that the proposed Regulation is too complex, should allow for more ALM flexibility, does not lead to a viable corporate system, and lacks credibility. Overall, our recommendation is that the proposed Regulation should be rewritten with assistance from industry experts.

Thank you for the opportunity to provide our concerns and recommendations regarding this important proposed regulation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Eva Gaudio". The signature is fluid and cursive, with the first name "Eva" being more prominent than the last name "Gaudio".

Eva Gaudio, President and CEO  
St. Vrain Valley Credit Union